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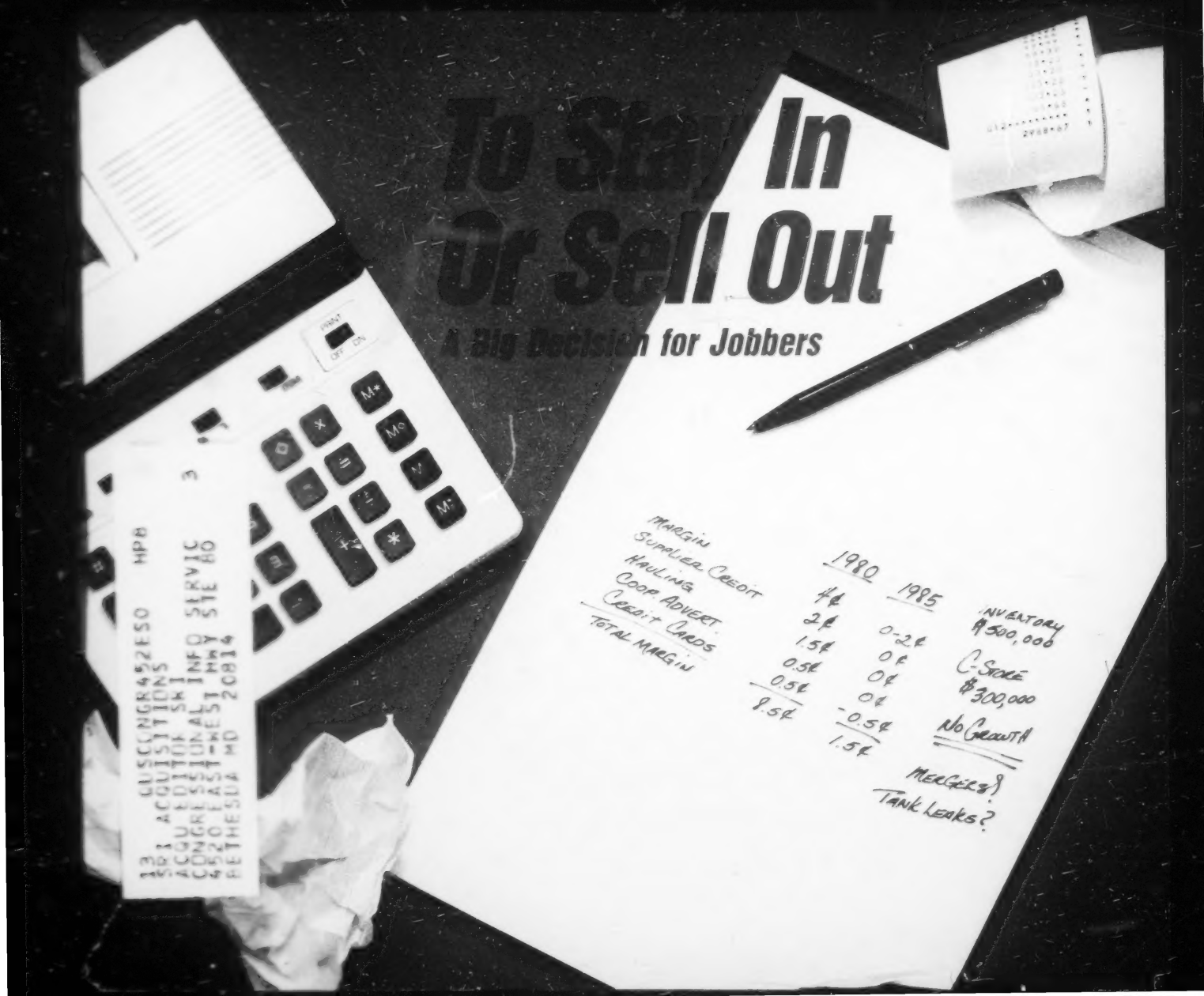
How 'Feeders' Are Sparking Battery Sales
Oil Heat Salutes Past, Looks to Future
Jobber's Computer Helps Fuel Oil Profits

NPN
National Petroleum News



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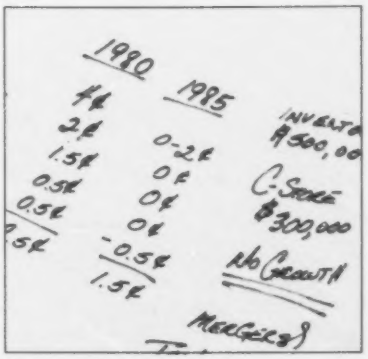


Once considered one of the easiest, safest and most-lucrative of small businesses, jobberships are going out of business at a record rate. The jobber fallout, to a large degree, is being caused by the loss of benefits once given him for his 'middleman' role. **Page 44**

Cover by John Apolinsky, Chicago

Despite the fact that fuel oil's share of the southeastern Wisconsin home heating market has shrunk to 16%, Hopson Oil is proving that sub-jobber operations and computers can help a company maintain a healthy position. **Page 54**

With a festive banquet that glorified the past and looked to the future with optimism despite the inevitability of additional marketplace losses, the heating oil industry ushered in its second century in upbeat fashion. **Page 58**

• TRENDS

Subtle Changes Reshape East Gasoline Marketing: The British are Coming!

Atlantic Richfield's surprisingly quick sale of its East Coast assets to Shell Oil, which has been around for a long time, and Atlantic Petroleum, a newcomer to the domestic scene [*NPN*—July '80, p37], contains some implications for gasoline marketers that are barely noticeable at first glance but nevertheless are intriguing indeed.

Chief of these is the impending internationalization of retail gasoline marketplaces on the Atlantic seaboard. Not just the supplying thereof with imported gasoline but down-in-the-street, toe-to-toe competition for customers and gallonage.

"Foreign" gasoline is not new to East Coast marketplaces. But direct retail competition is, no matter how it is disguised.

Ostensibly the biggest and most dramatic change of all in the Arco sale is its departure from the East Coast, where its jarring 4¢ to 6¢ gal. "edge" on gasoline prices kept most of its competitors in a mild uproar the last two or three years.

But there's more to it than that when the sale is coupled with other recent but unrelated events and viewed from a broader-based perspective.

Consider, for example, that four out of the last five major acquisitions of in-place marketing assets on the East Coast involved U.S. companies that are wholly or mostly owned by "foreign" oil interests. The only purely domestic transaction was Power Test's purchase of the old Getty operations in the Mid-Atlantic and Northeast.

These "foreign" oil interests are Shell, Atlantic Petroleum, Standard of Ohio and American Ultramar Ltd.

To unravel the situation, consider these facts:

Arco is selling 430 of its East Coast stations to Shell, which, until several months ago, was owned 70% by the Royal Dutch/Shell Group, and 30% by American shareholders. But Royal Dutch/Shell recently acquired the American interests, so Shell U.S.A. is a 100% British subsidiary, with managerial blessing flowing from London, not Houston.

Arco is selling 546 stations, 27 terminals and its 125,000 b/d refinery in Philadelphia to Atlantic Petroleum Corp. This is a newly chartered Delaware firm set up expressly by John Deuss, a Dutch oil trader headquartered in Bermuda, a British possession, to handle the U.S. operations. Deuss is regarded by fellow oil traders as a man who maintains tight control of all of his operations, including his Trans World Oil, which is another of his American companies. The strength of his reputation is such, however, that there'll never be any doubt about who's running the store—from Bermuda, not Philadelphia.

In the Southeast, Standard of Ohio is busily digesting the 5,600 service stations, 29 terminals and the 200,000 b/d Louisiana refinery it bought from Chevron in the Gulf spinoff. But Sohio long ago sold 53% of itself to British Petroleum Ltd. of London, so it qualifies as a majority-owned American subsidiary. And, since Sohio, via its own BP subsidiary, is in the process of making itself a powerhouse in East Coast gasoline marketing, it can be assumed that its British benefactors will have increasingly enhanced interest in the domestic operations as time goes on.

In the Northeast, another British offshoot, American Ultramar Ltd., has made no bones about the fact that it wants to expand its toehold in the New England gasoline and fuel oil markets as reasonably and as rapidly as it can. Ultramar jumped in with its purchase of the old Pittston/Metropolitan Petroleum and the Augsbury Corp. It's small now, but it is very ambitious.

The thrust of this perspective, however, is not to suggest that perhaps the time has come to re-enact Paul Revere's moonlight horseback ride, but to emphasize that four big internationals are now in direct retailing via subsidiaries and are positioning themselves to expand their marketing holds.

To be considered part of this picture, too, is the probable penetration of the Atlantic marketplaces by the Arab companies which long have entertained such notions. The Kuwaitis, for example, are known to have been interested in Arco's refinery, in the Texaco refinery at Eagle Point that Coastal got, and in the Gulf properties in the Southeast before Sohio came up with the best deal.

Make no mistake about it. They're coming in and probably soon.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

MAY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.223	$1.144	$1.231	$1.360
Regions:				
Northeast	1.211	1.123	1.202	1.335
North Central	1.226	1.160	1.246	1.374
South	1.208	1.124	1.211	1.355
West	1.252	1.165	1.266	1.404

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	6/28/85	6/29/84
Gasoline (total)	216,813	249,881
Gasoline (unleaded)*	101,560	109,336
Jet Kerosine	36,238	34,163
Distillates	108,441	112,744
Residual	41,040	49,585

**Included in gasoline total.*
Source: American Petroleum Institute.

35.6 percentage points over the 1983 levels.

"While these are certainly significant increases, one should not leap to major policy conclusions until several other factors are considered. First, the bulk of these imports are coming not from the politically unsettled Middle East but from nations which are considered strong allies by the U.S., including Brazil, Canada, Italy, the Netherlands, the Netherlands Antilles, Trinidad and Venezuela. In many instances, these imports are coming from American-owned refineries in other countries."

Griffith said that among the 10 top importers are eight companies with strong domestic refining interests including Amerada Hess, Northville Industries, Apex, Phillips, Texaco, Pacific Resources, Sun and Koch. Ironically, he noted, "some of those companies are the same ones which are urging consideration of some type of import restrictions."

On still another sensitive point, Griffith said hard data proves that current import penetration of the U.S. gasoline market is less than 6%.

He maintained that the import situation poses no threat to national security. As for the future, he noted that OPEC nations are scheduled to have a refinery capacity of 5.95-million b/d by 1986, of which almost half, 2.35-million b/d, would be available for export. A study shows this is expected to rise to 7.7-million b/d by 1988, of which 3.5-million b/d would be available for export.

But, he said, even if all of the gasoline would be aimed at the U.S. markets and current consumption remains static, it would represent only 9% of the total. Said Griffith: "Many experts considered it highly unlikely that the U.S. will receive [even] the bulk of these exports and, in fact, predict that they will go to Europe or the Far East, further eroding the refining centers in that part of the world."

Despite all of his strong testimony, Griffith ended with a hedge: "Let's keep an eye on imports, however, and if a rising tide makes the nation vulnerable to an embargo or a supply cutoff, or if competitive balances are upset in the marketplaces, then appropriate action may be necessary." NPN

Boxscore: 24 Refineries Gone, Capacity off 600,420 b/d

Energy Information Administration says that since the shakeout began in 1981, no less than 101 refineries have been mothballed, deactivated or dismantled altogether. Smaller refineries were especially hard-hit.

At the beginning of 1985, the U.S. industry still had 223 refineries in operation with a crude distillation capacity of 15.7-million b/d. This is not quite 3-million b/d less than it was in 1981 when it all began.

EIA says 26 refineries went down in 1984, but with two startups—a new unit and a reactivation—the net loss for the year was 24. Crude throughput decreased 600,420 b/d.

Here's a list of the 1984 shutdowns and startups [for prior years, see *NPN Factbook*, June 1985]:

District/Refinery/Location	Crude Distillation Capacity b/d	Years in Operation
PAD District 1		
Ashland Oil Inc., Buffalo, N.Y.	**64,000**	36+
PAD District 2		
Ashland Oil, Inc., Findlay, Ohio	20,400	36+
Ashland Oil, Inc., Louisville, Ky.	25,200	36+
Oklahoma Refining Co., Cyril, Okla.	12,750	36+
Oklahoma Refining Co., Thomas, Okla.	11,600	4
Tonkawa Refining Co., Arnett, Okla.	12,000	16
Tosco Corp., Duncan, Okla.	47,000	35
Total	**128,950**	—
PAD District 3		
Caribou-Four Corners, Inc., Farmington, NM	2,200	19
Celeron Oil & Gas Co., Mermentau, La.	11,000	6
Dorchester Refining Co., Mt. Pleasant, Texas	26,500	36+
Eddy Refining Co., Houston, Texas	3,250	36+
Hill Petroleum Co., Krotz Springs, La.	57,400	6
Mid-Gulf Energy Corp., Ingleside, Texas	39,400	6
Port Petroleum, Inc., Stonewall, La.	3,200	4
Quintana Petrochemical Co., Corpus Christi, Texas	33,300	30
South Hampton Refining Co., Silsbee, Texas	18,100	24
Southern Union Refining Co., Lovington, NM	36,100	8
Tesoro Petroleum Corp., Carrizo Springs, Texas	26,100	27
Warrior Asphalt Co., Holt, Ala.	5,500	30
Total	**262,050**	—
PAD District 4		
Caribou-Four Corners Inc., Woods Cross, Utah	**8,400**	21
PAD District 5		
Anchor Refining Co., Inc., McKittrick, Calif.	9,000	6
ECO Petroleum Inc., Long Beach, Calif.	0	8
Marlex Oil & Refining Co., Los Angeles, Calif.	21,100	7
Powerine Oil Co., Santa Fe Springs, Calif.	44,120	34
Tosco Corp., Bakersfield, Calif.	38,800	33
U.S.A. Petrochemical Corp., Ventura, Calif.	24,000	7
Total	**137,020**	—
US Total	**600,420**	—
New or Reactivated		
PAD District 1		
Virginia Oil & Refining Co., Jonesville, Va.	1,000	—
Amerada Hess Corp., Pork Reading, N.J.	68,000	—

Refineries by Capacity, 1981-1985

Crude Distillation Capacity (b/d)	No. of Refineries 1985	1984	1983	1982	1981
Less than 10,000	56	63	67	82	91
10,001-30,000	43	55	59	80	93
30,001-50,000	38	41	40	44	42
50,001-100,000	39	41	44	43	44
100,001-175,000	25	26	26	30	27
Over 175,000	22	21	22	22	27
Total	**223**	**247**	**258**	**301**	**324**

Source: Both charts—Energy Information Administration

No Foreign Buys From SPR, Add Indie Refiner Access?

The U.S. General Accounting Office says the Reagan Administration's plan to "draw down" oil from the Strategic Petroleum Reserve in the event of an emergency will probably succeed in holding crude prices down.

But GAO claims Congress should consider banning the sale of SPR oil to brokers and foreign governments, while at the same time providing independent refiners access to some of the oil.

The Department of Energy's SPR removal plan calls for sale of the oil to the highest bidder. A number of lawmakers, including Rep. Philip Sharp (D-Ind.), have criticized the proposal, claiming foreign entities could bid the price of the oil to such high levels as to undermine the purpose of the SPR.

The National Petroleum Refiners Association has argued that foreign entities should be restricted from participating in purchases from the SPR. But DOE claims other countries could get around the proposed restriction simply by setting up a front corporation in the U.S.

GAO said indie refiners should be guaranteed access to SPR oil since they are "more vulnerable to oil supply disruptions" than major refiners. NPN

IPAA: Demand up Again—Will Increase 1% in 1985

Total product demand is expected to rise about 1% to nearly 15.8-million b/d in 1985, the Independent Petroleum Assn. of America's supply-demand committee says. A cheerful note: Although this represents a gain of only 45,000 b/d, it is the second year in a row that consumption has grown.

Motor gasoline, comprising almost half of the total volume, is projected to show a 1.2% increase in 1985. This means it is expected to average 6.78-million b/d in 1985 with the peak period coming in the third quarter when it will average 6.95-million b/d.

Middle distillate demand is forecast to increase 2% in 1985 with most of the strength in the transportation and construction sectors. In other words, diesel engines for highways and equipment.

Residual fuel oil's ski ride will continue, perhaps more precipitiously than in the past as nuclear energy and coal replace it for power generation. NPN

	(Thousands b/d except closing stocks)				
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year
Demand					
Motor gasoline	6,494	6,919	6,949	6,755	6,780
Aviation Fuels	1,175	1,227	1,268	1,248	1,230
Distillates	3,449	2,863	2,724	3,092	3,030
Residual	1,361	1,176	1,178	1,228	1,235
LPG	1,809	1,388	1,452	1,674	1,580
Other prods.	1,519	2,024	2,195	1,851	1,899
Total	**15,807**	**15,597**	**15,766**	**15,848**	**15,754**
Imports					
Crude oil	2,435	3,387	3,619	3,429	3,221
Motor gasoline	416	400	358	340	378
Distillates	201	246	259	310	254
Residual	566	563	563	584	569
Others	600	679	677	695	663
Total	**4,218**	**5,275**	**5,476**	**5,358**	**5,085**
Domestic Production					
Crude oil	8,928	8,891	8,877	8,865	8,890
Nat'l gas liquids	1,629	1,622	1,634	1,644	1,632
Total	**10,557**	**10,513**	**10,511**	**10,509**	**10,522**
Other supply*	622	731	791	770	730
Total Supply	**15,397**	**16,519**	**16,778**	**16,637**	**16,337**
Closing Stocks/Principal products (millions of bbl.)					
Motor gasoline	220.3	218.1	216.4	223.8	223.8
Distillates	107.7	111.8	142.2	154.0	154.0
Residual	46.3	45.6	46.6	47.6	47.6
Crude runs to stills	11,418	12,042	12,493	12,208	12,044

*Processing gain, unaccounted for crude and other hydrocarbons.
IPAA May 31, 1985 Supply-Demand Committee Report.

Pennzoil Files Lawsuit Over 'Handshake Deal' For $5-Billion Getty Buy

Which takes precedence in the eyes of the law: A handshake agreement in an industry where tradition says a man's word is his bond; or a formal written contract with another party which displaces and replaces the original verbal accord?

A state court jury in Texas is tusseling with that old-fashioned gut issue now and, no matter which side wins, it seems certain that appeals and counter-appeals will have the issue bouncing around in the court for years to come.

It's a belated fallout of l'affaire Pennzoil-Getty-Texaco.

To put things into perspective, here's a bit of history:

In the fall and early winter of 1983, Gordon Getty, son of the founder of the Getty empire (J. Paul Getty) and the management of Getty Oil Co. were publicly and privately squabbling over the company's operations and directions.

Getty was sole trustee of the Sarah C. Getty Trust, which owned 40.2% of the oil company's common stock.

Over the New Year holiday period, he and J. Hugh Liedtke, chairman of Houston-based Pennzoil Corp., negotiated a handshake agreement for the latter to acquire control of the oil company for $5.3-billion in a classic leveraged buyout.

The Getty board acted on the matter, but there are differences of opinion as to whether the board approved the agreement pending definitive terms and a written contract or just the price. But Getty did announce via news releases that a Pennzoil-Getty agreement in principle had been made.

Most of the details are still closely guarded secrets, but over that weekend Texaco got into the act and hardly had Pennzoil and Liedtke had time to celebrate their own coup when it was announced that Texaco had bought Getty for a little under $10-billion. Getty and Texaco formalized the proceedings with board approvals and written contracts, all of which subsequently were accepted by Federal Trade Commission and others. The merger of Getty into Texaco is now history.

Liedtke and Pennzoil filed a $14-billion lawsuit against Texaco, alleging that Texaco induced Getty to change its mind and renege on the oral agreement. Liedtke has admitted that he has nothing in writing but is basing his suit on the concept that in the oil patch—and throughout most of the industry—"a man's word is his bond," and that he therefore had a valid, if unwritten, "contract" with Getty.

The jury trial was scheduled to start in Houston in mid-July. NPN

To Stay In Or Sell Out

A Big Decision for Jobbers

Two oil jobbers recently were sitting around discussing the good fortune of a third jobber who had just unloaded a huge self-serve pumper to a major oil company for a reported $1.25-million.

"I know what I'd do with that much money," said one. "First, I'd take it home and just count it for two or three days. Then I'd take it to a bank offering the highest money-market interest rate and deposit it. I sure as hell wouldn't invest it in another 'gas' station."

Such seems to be the mood of a lot of oil jobbers nowadays. Although many of the larger ones with diversified operations are prospering and getting larger and larger, others are having their problems.

Once considered one of the easiest, safest and most-lucrative small businesses to get into, jobberships have been going out of business at a record rate for the past four-and-a-half years, and reports indicate that more may be for sale today than at anytime in the industry's history.

The jobber fallout, to a large degree, is being caused by dramatic changes in benefits once given him for his "middleman" role between suppliers and dealers. Suppliers began to reduce or eliminate many of these benefits when federal supply and price controls were ended.

There were approximately 15,160 jobber companies at the end of 1982, two years after the lifting of federal price and supply controls, according to the Petroleum Marketers Assn. of America (PMAA). There are now approximately 12,000, according to PMAA estimates. It bases this estimate on the fact it currently has 10,568 jobber members (3,942 motor fuel only, 1,078 heating oil only, and 5,548 combination motor fuel/heating oil) and believes it has from 85%-90% of the total jobber population.

Most of the approximately 3,160 jobbers who have disappeared since the end of 1982 are believed to have merged with others or sold out.

By Marvin Reid
Editor-in-Chief

Despite the shocking fallout already, many marketers and refiner-supplier executives believe there is more to come.

In a recent PMAA survey of refiner-suppliers, marketers association executives and industry observers, 98% of the respondents predicted the fallout will continue for some years to come [See box].

"I think we could lose another one-fourth to one-third within a year to 18 months," says Jerdy Gary, president of the Texas Oil Marketers Assn. (TOMA). "A lot of jobbers are losing money and are getting more serious about selling out before they have to liquidate."

Big Squeeze

Much of the oil jobber attrition to date is traceable to the same conditions which are causing the entire oil industry to shrink rapidly on all fronts—the worst prolonged demand and price slump since the 1930s.

As a result of this slump, the large oil companies are curtailing exploration, closing refineries, laying off employees, boarding up service stations and selling off assets. Some, like Atlantic Richfield, are becoming regional rather than national marketers [*NPN*—July '85, p36].

All of this is happening, says Atlantic Richfield chairman Robert O. Anderson, because the industry in the late 1970s "got ready for a party that never occurred."

Anderson says that at about the time free world demand for oil was peaking in 1978, most oil company executives and the Carter Administration believed there was unlimited demand for energy ahead. "We thought then," Anderson says, "that world demand would be some 15-million b/d higher than it actually is." Sporadic supply shortages were foreseen, meaning a steady rise in prices.

"We underestimated volume (or demand) by 15-million b/d. We underestimated the price by something more than half," says Anderson.

Instead of continuing to grow at a fast clip as it had through most of the 1970s, oil demand suddenly began a steep nosedive in 1979. Today, U.S. oil demand remains at about 17% below the peak reached in 1978.

There was a slight recovery last year, but recent reports indicate that demand may be slipping again.

Petroleum Intelligence Weekly, a highly-regarded industry newsletter, has reported that total oil demand was off 1-million b/d in six western industrial nations in April. It found U.S. demand off 3% that same month.

If demand is falling again, this could play havoc with already weak world crude oil prices and possibly trigger a new wave of oil company mergers. Saudi Arabia's oil minister, Ahmed Zaki Yamani, has warned that world prices could drop below $20 bbl. Some analysts say that if it does, some companies which have taken on a lot of debt to avoid takeovers would be in trouble.

Jobber Fallout to Continue . . .
How Many Will be Left?

What Different Groups Predict:

Years from now	Marketers Number/Fallout	Refiners Number/Fallout	Assn. Executives Number/Fallout	Industry Observers Number/Fallout
2	10,705/11%	10,6[illegible]/10.5%	10,700/11%	9,933/17.2%
5	8,905/26%	9,685/19.3%	9,311/22.4%	8,313/30.8%
10	7,811/35%	8,972/2[illegible].3%	8,277/31.1%	7,072/41.1%

Source: Petroleum Marketers Assoc. of America.

Even if crude prices stabilize at their present levels of around $26 to $28 bbl., most industry and financial analysts believe the large oil companies will continue trying to pare their refining and marketing operations. John C. Sawhill, former deputy secretary of energy and now a director of New York consulting firm McKinsey & Co., claims the oil companies lost approximately $6-billion downstream over the past two years.

Faced with the record plunge in demand and bleak forecasts for the future, most of the oil companies have been sharply reducing or eliminating many jobber benefits which the jobber once thought to be "normal business practices."

Double-Whammy

The sharp reduction or loss of these benefits has happened gradually over the past four-and-a-half years while one of the worst dog-and-cat fights ever seen has been going on at retail.

Many jobbers say that, in effect, they have been hit with a double-whammy. On the one hand, their suppliers have been taking away benefits which had traditionally helped them survive such competition. On the other hand, they say, they find that their suppliers now are often their toughest competition at the pumps.

Prior to decontrol, most refiner-suppliers sold gasoline to their jobbers at a discount off their dealer tankwagon (DTW) prices. In most cases, the jobber paid 3.5¢ to 4¢ gal. less than the DTW price paid by dealers.

In addition, most companies gave the jobber a freight allowance to cover the cost of hauling product from company terminals to the jobber's place of business. On the average, say jobbers, this allowance ranged from 1¢ to 1.5¢ gal.

But since decontrol, the majority of companies have switched to rack or terminal pricing for their jobbers. Some companies now maintain they have two pricing structures, one for jobbers and one for dealers, and their selling prices for each depends on what competition is doing.

Many jobbers claim the net effect of these changes has been a sharp reduction and even elimination of both their traditional "functional discount" jobber margin and their freight allowances.

The jobber also has lost other traditional benefits such as free credit cards and long credit terms.

When all of the lost benefits are added up, some sources say a jobber may be receiving as much as 8¢ or 9¢ gal. less in total margin and other benefits today than he was getting before decontrol.

"The companies have been playing 'take-away' on all those goodies the jobber once got until the drawers are getting too tight to dance in," says Jack Malone, a Memphis multi-brand jobber.

In Texas, where TOMA has launched a campaign to call shareholder and oil company chief executive attention to what it alleges to be downstream subsidization of below-cost selling at retail by some majors, the group's president Gary says many jobbers have lost at least 3.5¢ to 5¢ gal. in the "take-away" game.

In addition, says Gary, jobbers in large cities and in markets around them have pretty much lost the traditional 3.5¢ to 4¢ gal. "functional discount" jobber margin. Jobbers in such markets often find, says Gary, that company-supplied dealers are

posting prices on their retail pumps close to the jobber buying price.

Jobbers in other states have been striking back too, usually threatening some type of divestiture or below-cost legislation aimed at lessening major company competition at retail.

Supplier Response

The oil companies generally respond to jobber complaints about their margins and other benefits losses by saying the record slump in demand and prices is forcing major changes.

J. W. Schutzenhofer, Shell's marketing vice president, replied to TOMA's complaints last April by saying all segments of the industry—refiners, wholesalers and retailers—have to seek "the most cost-effective manner in which to market their products" in the present highly competitive environment.

Gary W. Edwards, vice president of North American marketing for Conoco, wrote TOMA that "Due to the instability of world crude prices, I feel that over the next few years marketers will continue to experience conditions that will require constant examination by dealers, distributors and suppliers as to how we can market our products more efficiently. We all agree that only the most efficient can survive."

George Babikian, senior vice president of marketing for Arco, believes such things as the jobber's functional discount margin now belong to the past much like the low-volume neighborhood service station. He sees the industry moving increasingly toward a one-price system. "The difference between DTW and jobber rack prices will continue to be very minimal," Babikian predicts.

Some jobbers say they can understand that the oil companies, hard-pressed on many fronts, are having to make some changes in their traditional marketing practices.

"We used to operate on the supplier's money," says TOMA's Gary. "They would give us 15 or 20 days, sometimes longer, to pay for the product we bought, plus many other things.

"But you just have to look at what happened to companies like Phillips to see that they have problems, too. All companies have really tightened up their credit terms and we can see reasons for that. The jobber just has to do the same with his customers."

Still, insists Gary and TOMA, some companies are doing things both at retail and in the commercial account field which make it tough for even the most efficient jobber to survive.

The Crunch

Many oil jobbers, just like most oil companies, have had a tough time adjusting to the new world they entered when the federal controls were removed.

In 1979, about the time Arco's Anderson says the oil companies were getting ready for that big party of unlimited demand and a further runup in prices, the jobber's biggest worry was where to find a little extra supply.

Once again, for the second time in five years, there were long lines at service stations. Marketers who could get supply were able to reap fat margins legally. Some who wished to play around in the

spot market by winking at the government controls could make as much as 30¢ to 40¢ gal.

It was thought the industry was short about 1- to 1.5-million b/d of oil at the time. Some oil company executives fretted about a possible shortage of refining capacity. OPEC, spurred on by the Iranian revolution, was putting world crude oil prices in orbit.

Jobbers, along with almost everyone else in the oil business, were making money hand over fist. One Southeast jobber admitted he was socking away "over $1-million a month" in high-interest-bearing bank accounts.

But then the party was over, and many found that it was time to pay the piper.

By the summer of 1980, demand was shrinking like a $2 shirt in a thunderstorm, and so were the fat margins. Meanwhile, jobbers discovered that the soaring prices of the previous year had more than doubled their inventory costs, and interest rates had soared to 20% to 21%. People were beginning to say they wouldn't be surprised to see jobber fallout.

That was just the beginning of the crunch for jobbers, though. The following year, with the controls gone, the oil companies began stripping away those goodies such as functional discount margins, hauling allowances and the like.

The fallout, a trickle at first, quickly increased.

Blue Sky Days

PMAA has estimated that from the end of 1980 to the end of 1982, the jobber "universe" decreased by more than one-third down to 15,160.

At the beginning of the fallout, it was a good time for a jobber to sell his company if he wanted to do so. Other jobbers were eager to purchase, both for the selling jobber's assets and his supply allocation.

In 1980, while the federal controls were still in place, deals were often closed wherein the buyer paid the fair market value for a selling jobber's assets plus from 3¢ to 5¢ gal. for his supply allocation.

Such "blue sky" values largely disappeared, though, when the controls ended and it became obvious that oversupply rather than short-supply would be the industry's problem.

As the dogfight over a shrinking market stripped margins to the bone, the jobber faced a big decision. Those making a commitment to stay in the fight were building far more expensive and sophisticated retail outlets, sucking up gallonage from older outlets. As one jobber put it at the time: "Everybody has a big decision to make. We all made good money last year. Do we reinvest those profits and hope to hit it big again in three or four years? Or do we pick up our marbles and go home?"

Buyer's Market Emerges

The premiums over the fair market value of a jobber's assets which buyers are willing to pay have become thinner over the past two years. In some instances, the seller finds he can't even get the fair market value.

Most jobbers who have been acquiring other jobber companies since 1983 say that a "buyer's market" has definitely emerged. Increasingly, they find that they can pick and choose.

Nevertheless, each deal is different.

A study of actual jobber company sales done by David M. Nelson of Western Washington Univ. under the sponsorship of the Petroleum Marketing Education Foundation shows that "blue sky" or goodwill was more often paid than not in jobber buyouts from 1981 through 1983.

Nelson found that out of 18 buyout-sellout deals in 1981, some 13 of the sellers received premiums ranging from 0.8¢ to 4.7¢ gal. over their properties' fair market value.

In 1982, eight out of 14 sellers were paid from 0.75¢ to as much as 8¢ gal. over market value. However, three of the remaining six sold below fair market value. One went for only 25% to 33% of such value.

Nelson studied more than 37 actual transactions made in 1983 and discovered that 19 involved premium payments above fair market value ranging anywhere from 0.25¢ to 14¢ gal. Of the remaining 18, five sold below and 13 at fair market value.

Some of the 1983 transactions were described as "distress sales," with one company selling for half its fair market value and another auctioned off at a bankruptcy sale.

The size and location of a jobber company, plus the brand it flies, seems to play an important role in what price a seller can negotiate.

One multi-brand jobbership (Texaco/Mobil/Phillips/private) on the East Coast, operating in rural and small cities of under 50,000, was selling 40-million gal. of gasoline and 6-million gal. of distillates annually when it sold for $9.6-million in late 1983, according to Nelson. The company was supplying 100-plus stations and had from 30% to 40% of the market in its area.

Another jobber company branded Citgo/Mobil in the North Central U.S. had an annual gallonage of more than 6-million in gasoline and 1,677,000 in distillates when it sold for $270,000 last year. Only one service station was included in this sale, however, and the buyer paid a premium of 3¢ gal. on gasoline and 6¢ on distillates.

An East Coast private-brand company selling 30-million gal. of gasoline and 5-million gal. of distillates sold for between $6 and $7-million. Included in this sale were 11 high-volume multi-pump C-stores in a city of over 250,000. The independent sold to a major company for cash.

But another jobbership in the South Central U.S., selling 850,000 gal. of gasoline and 50,000 gal. of distillates in a market of over 50,000 population, sold for $400,000 below market value due to operating deficits.

Actual transactions studied by Nelson indicate that so-called "blue sky" premiums or below market-value sales don't always mean exactly either one.

In one case, an Amoco jobbership doing 4-million gal. annually in the North Central U.S. sold for $250,000 over the estimated fair market value of the firm's assets. This works out to a 6.25¢ gal. premium, says Nelson, but neither the buyer or seller "thought of the sale in those terms."

A 1.5-million-gal. Gulf jobbership in the South Central U.S. was sold in 1982 for only 25% to 33% of its market value. However, says Nelson, "The seller benefited from pricing the land at three times appraised value and the equipment at book value or less. This eliminated any recapture of depreciation making the entire profit a long-term capital gain."

Bargain Seekers

The oil companies are well aware that many of their smaller and even average-size jobbers are being squeezed by the loss of margin and other benefits, plus highly-competitive marketplace conditions. They are urging some to consider becoming associates or sub-jobbers of larger ones [*NPN*—May '85 p42].

Some company executives and larger jobbers say many of the smaller ones may have no alternatives other than to go that route or sell out.

This situation makes it tough for the

jobber who has waited until now to consider selling out. Those who might be willing to consider buying his business are well aware of the predicament he is in and tend to drive tough deals.

One Texas buyer on the jobber acquisition trail says he has looked at several over the past year without finding a single one worth buying. "They don't have anything to sell," he says.

A Southeast jobber who has made some acquisitions since decontrol says he has looked at six more jobberships in recent months but found he was interested in only one. He, too, says that "most don't have anything to sell" and still have "inflated price ideas."

This jobber has discussed the possibility of buying out the one he is interested in at 25% to 42% of the appraised value of the seller's equipment plus maybe 1¢ gal. "blue sky." The selling jobber maintains that his business is worth 7¢ gal. "blue sky."

This same jobber also has negotiated with a 2-million-gal.-a-year jobber in a rural area who wishes to sell out for $750,000. The seller has four owned retail outlets, six leased ones, two bulk plants, equipment, and $90,000 in accounts receivable. In addition to his gasoline business, he has $10,000 in annual TBA sales, plus some lube and bulk oil business. The acquisition-minded jobber says the seller has one or two stations he might want, but not the rest of his business.

Jobbers who look at the properties of others who wish to sell say they often find only older retail outlets with small storage. One buyer who has looked at two jobberships located in a small town says only one location between the two interests him.

In addition to their other problems, all jobbers find their liability insurance rates are skyrocketing. One large jobber learned recently that his "umbrella" insurance coverage premium would be $10,000 for $1-million coverage at renewal time. He had paid $1,279.69 for the same insurance the previous year.

"I think some of these smaller jobbers have discovered this, and it makes them more eager to sell out," says this jobber. "They are not all dumb."

What is the Future?

Many sources, both major company executives and large jobbers, believe hard-pressed smaller ones will increasingly elect to either associate with a larger distributor or sell out.

"I think more are getting more serious about selling," says TOMA's Gary. "I think they will get more realistic about what their businesses are worth in today's market. If they don't, they may have to liquidate."

"Many jobbers are quite surprised to learn the market value of their business is well below what the jobber himself figured," says Jerry Everett, former Northwest Petroleum Assn. executive director. "They run a jobbership for 40 years without really paying attention to what's going on around them and they can't get anywhere near what they're asking."

Another association executive fears that many of his members "will just go out of business."

Just about everybody expects the jobber mergers and sellouts to continue. Those who participated in the PMAA survey believe the jobber population 10 years from now will be down in the range of 7,072 to 8,972.

But those who can stick it out are likely to find business better than ever by then, say some sources.

The possibility of really striking it big continues to exist. One large chain retailer of today started his business in 1968 on a capital investment of $2,500. He now rings up over $500-million in sales per year and is building multi-pump C-stores at the rate of one per month. His name is Truman Arnold, of Texarkana, Texas, who operates under the Road Runner brand.

Coincidentally, another young man with the same last name—Dan Arnold of Loves Park, Ill.—has recently opened a multi-pump C-store, also under the brand Road Runner. Dan Arnold, 27, says he never heard of Truman Arnold but he is excited about striking it rich in the gasoline and convenience food business. He has plans for several more stores.

Most sources who see a good future in oil marketing say it will take the type of "go for it" attitude that both Arnolds have to succeed in the future. NPN

Jobbers Caught in the Middle As Majors Squeeze Value from Retail

A gradual erosion of the so-called jobber "functional discount" or margin since deregulation is one of the big reasons why the jobber fallout toll has been rising.

A differential between the dealer buying price and the jobber buying price existed for years in the industry in recognition of the function performed by the jobber.

Typically, a jobber bought gasoline from a refiner, stored it in his bulk plant, and then resold it to dealers who were operating service stations built by the jobber and leased to the dealers. An oil company usually figured this jobber function was worth 4¢ gal.

But then, many jobbers began combining the jobber margin with the dealer margin and salary-operating their retail units. Company-supplied dealers, paying 4¢ gal. more for product than the jobber, have long complained that such a practice is unfair to them.

With deregulation, many oil companies began re-evaluating the cost and payout of the jobber function. Some believed that by culling out many of their low-volume outlets, they could increase rents and volumes at the remaining ones. This, went the general reasoning, reduced the economic value of the jobber channel.

A gasoline marketing study done by Robert N. Fenili and William C. Lane for the American Petroleum Institute points out that, from the refiner's viewpoint, hypothetically it is better for a jobber to own a $200,000 station if it is pumping only 50,000 gal. At that level, it is economically sound for the refiner to pay the jobber 4¢ gal. for his investment function.

But if the refiner can replace that 50,000 gal. station with one pumping 100,000 gal., the jobber's 50,000 gal. unit becomes less valuable to the refiner.

The report also points out that if a company can get a 12% return in rent revenue for one of its outlets valued at $200,000, this cancels out the value of having a jobber own the outlet as far as pure economics are concerned.

Since the majority of companies continue to pursue both higher per-unit rents and per-unit gallonages, the jobber margin is expected to remain under pressure.

Battery 'Feeders' Help Majors Put More 'B' Back Into TBA

Oil companies appear to have halted a steep decline in battery sales through service stations by turning to "feeders" or "battery specialists" to supply and service their dealers.

The companies, as a group, had been losing battery sales at about a 10% annual clip for years. But in 1984, they actually showed a sales increase of 2% over the previous year.

Both oil company TBA men and battery suppliers believe the turnaround is significant.

Batteries are one leg of the three-legged TBA stool—tires, batteries, and accessories. It's doubtful an oil company TBA program could be considered viable without a profitable battery business, so that what happens in batteries is in a sense symptomatic of the success or failure of oil companies in the automotive aftermarket.

Several major oil companies have adopted "feeder" programs to improve service to their resale customers, particularly in helping reduce stocks and eliminate on-shelf battery discharge.

It's a radical departure from the ways oil companies distributed batteries in the past, many with their own warehouses and direct shipment, others with drop shipment by battery manufacturer's.

For the companies that now use feeders, gone are "loaders," sales promotions, quantity discounts, and other devices to load up dealer shelves. Instead, dealers are encouraged to buy no more batteries than they need, in some cases even one at a time.

A lot of bugs have been worked out since feeders were first tried by oil companies three or four years ago, and no doubt further improvements can be made. But as feeder programs have spread from company to company and area to area, the hemorrhage of battery sales has been stanched.

What the Record Shows

Since 1980, the "gasoline and oil" channel of distribution has lost a third of its battery business. Until last year, the skid was precipitous, amounting to 34% in three years [See chart at right]. Some battery manufacturers and oil companies had begun the countdown to the end of the battery business at service stations.

This wasn't a recent trend. Oil companies had been losing battery sales step by step with station closings and the retreat from automotive service, a process that began in the early 1970s.

There's nothing wrong with the battery business itself [See left-hand chart, page 51]. Sales have grown 19% since 1980, and over 8% in 1984 alone. But most of the recent big increases have been going to automotive chain stores and battery specialists [See table on page 53]. Still very important, too, are department and discount stores and the automotive parts distribution channel.

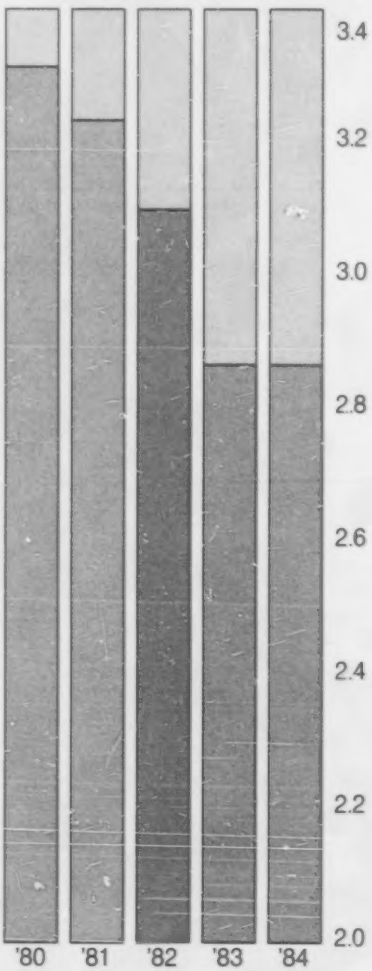
While oil companies were losing 33% of their business from 1980 to 1984, battery specialists were gaining 42%. Battery specialists are now the dominant channel of distribution by far [See chart, page 52], and the volume of batteries they handle for oil companies is not included in specialists' sales figures.

"Auto chains and others" are the fastest growing channel [See table on page 53].

With battery specialists going great guns, oil companies evidently decided to copy success. It was a case of "if you can't beat them, join them," says Jerry Lawrie, vice president of GNB (formerly Globe National Batteries), one of the major suppliers of oil companies.

GNB and other manufacturers who do business with the battery specialists got them together with oil companies, and the rest is history. Other battery suppliers mentioned by oil companies as participating in feeder programs are General, Exide, Delco, and East Penn.

Battery Shipments to Gasoline/Oil Companies
(millions of units)



Who's Doing What

Nobody seems to know exactly when battery feeding by oil companies started. Various oil companies have at times made arrangements in a limited area with a battery company to handle deliveries and adjustments from its warehouses, which is a kind of feeder operation.

But Shell appears to have led the pack, starting experiments in late 1981 and going national in 1982. Exxon went national last year. Amoco uses feeders in part of its marketing area. Unocal's Eastern Region put its direct retail stations on feeders a couple of years ago and is now doing the same for its jobbers and truck stops. Texaco is reported to have some feeder programs in limited areas.

The function of a feeder is mainly to deliver the batteries, rotate the stock, handle adjustments, and, in some cases, label the product. For this it receives a flat fee for each battery handled, typically $7 but probably ranging from $6 to $8-plus. The fee usually is negotiated between the oil company and the battery manufacturer.

Feeder programs are very similar to one another, although details seem to make some more successful than others. In almost all cases, the oil company signs a contract with the battery company, which in turn deals with individual feeders.

Here is a rundown on the principal feeder programs, with comments by each program manager:

By Mark Emond
Contributing Correspondent

Shell: Biting the Bullet

Shell has 18 feeders covering its entire 38-state marketing area. The company went through a three-year debugging period that called for draconian measures: It amounted to deciding either to get into the battery business right, or get out completely.

Robert Myrick, manager of TBF ("F" for filters), explains the rude awakening:

"We found when we first went into the program that a lot of our batteries were over-age in grade. The way we had sold batteries was on loader deals, just like any other TBF product. That got us into some deep trouble because we were selling more batteries than a dealer could sell in a reasonable amount of time. The result was he ended up with a lot of badly discharged batteries in his inventory.

"We didn't realize the magnitude of that problem at first. It was soon pointed out to us by the feeders that the problem of sulfated batteries was tremendous. At the urging of the feeders, we eliminated all battery promotional strategy. We went to a new price basis. We eliminated the quantity discount allowances so there would be absolutely no incentive other than just the everyday price for our own sales force or our dealers to want to buy in quantity.

"We designed our program to encourage dealers to buy in the minimum quantities they could. We liked to think about five at a time would be about perfect. That was the initial thought. Today we'll sell as little as one. Dealers just buy batteries off the feeder's truck."

But to get started right, Shell had to bite the bullet. Says Myrick: "In 1983 we bought back the entire inventory of every dealer in the United States in order to purify the inventory and satisfy ourselves that we indeed did start with good stock." He found 80% or more of all the batteries were defective.

"That was a very expensive proposition," he continues, "but we felt it was necessary for the long-term good of the business, and I think we were correct in that assessment. It did us a lot of good in terms of relations with our feeders and our jobbers and dealers."

How does the feeder program affect battery prices? Myrick says he's able to sell at a more competitive price because the cost of promotions isn't built into it, adding that "our price today is probably lower than it was three years ago."

From the standpoint of the dealer, he says the feeder program "has everything that's to the dealer's advantage. He gets local delivery, gets it promptly, gets adjustments handled properly by an expert, gets stock rotation, stock exchange. If I were a dealer I couldn't imagine having a better program."

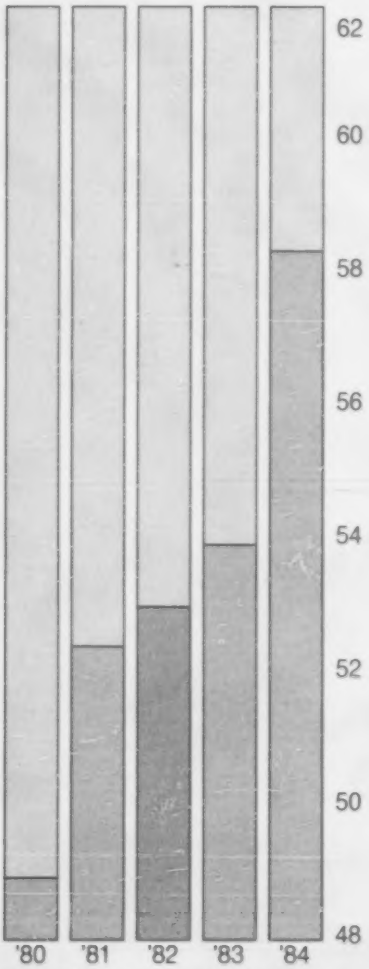
The feeder program has enabled Shell to get into fine-tuning it wouldn't likely have been able to do before. For example, the company has just completed what it calls "Interstate overlay," a program to try to match the best features of Interstate Battery Systems of America, considered the No. 1 competitor in the business.

"We try to overlay what their system does," explains Myrick. For example, like Interstate, many Shell feeders are now on a prescheduled route system rather than mostly on a demand system.

Because Interstate had a consignment program, Shell adopted one. Shell also attempted to pattern its adjustment procedure after Interstate's "very simple and effective" one.

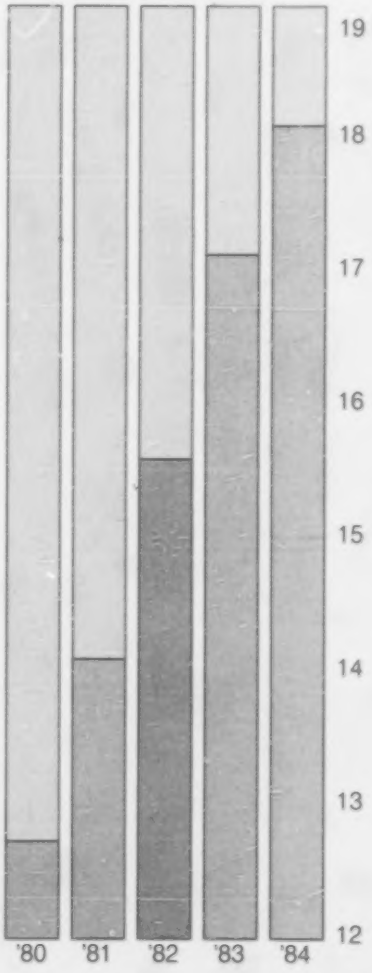
Summing up, Myrick says: "We're at

Total Battery Shipments
(millions of units)



Source: All charts—Battery Council International

Battery Shipments to Battery Specialists
(millions of units)



the point now where we think we understand how to do it. We have excellent battery feeders, and we look forward with great optimism to our battery business in the future."

Exxon: 'It Works'

Exxon is clearly devoted to its feeder program, with about 20 feeders nationwide, but doesn't provide any details about how it works. Monroe Jackson, battery products specialist, says, "I can't divulge exactly how we work our feeder program, because it works."

The program was started experimentally in 1983 in three direct metropolitan markets. By the end of the same year, Exxon decided to go national, completing the process in August 1984.

Discussing the pros and cons of feeder programs, Jackson says they may vary in detail, with some more successful than others, but they are fundamentally good because "you're selling on a sound basis when you're in a feeder program."

The central objective is, "We don't want to overstock our dealers," he says. "I think that's what every good feeder program is based on, selling only the needs. If the dealer needs it, you sell it. If he doesn't, you don't."

Amoco: Taking a Closer Look

Amoco is one of the few remaining major oil companies with its own direct TBA warehousing system, but the company has inaugurated a partial battery feeder program to serve dealers in its outlying marketing areas.

In deciding whether to serve dealers direct or through feeders, "the first thing I think of is distance from my proprietary warehouse," explains Bill Rowles, TBA manager. "If I have a pretty strong market and it's located distant for me to serve, I'll consider a feeder."

Amoco started up in feeder programs about two years ago, and now has eight feeders in such markets as Philadelphia, Atlanta, Milwaukee, and St. Louis.

On the plus side, a feeder program reduces adjustment cost "because there are more frequent deliveries into the station," Rowles explains. "Your feeder cost is the adjustment cost. And, frequent deliveries also mean lower inventory. Shelf life is no longer a problem."

The objective of lowering dealer inventories applies also to the direct operation. "We used to have programs where we'd encourage dealers to stock 250-300 batteries on quantity discounts," Rowles says. "But if you tailor those down and get dealers to buy smaller quantities with some kind of commitment program with smaller discount brackets, you've handled that complaint." He thinks the average dealer's stock of batteries now is down to about 25.

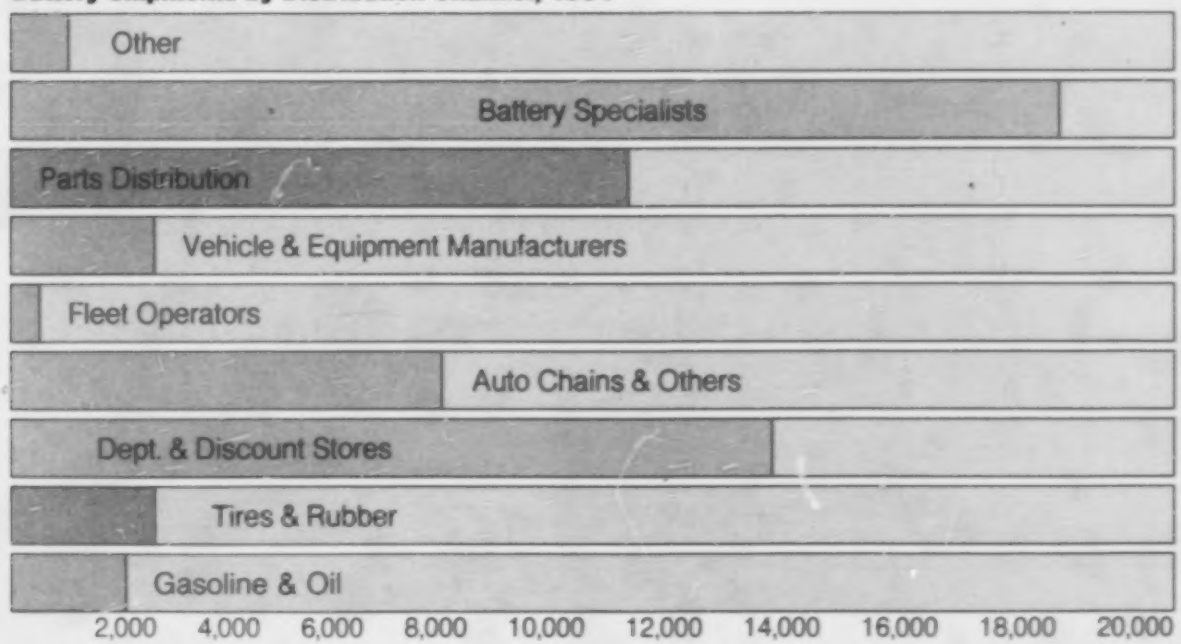
On the minus side, Rowles says, "The one thing I haven't seen, that everybody told me I would see, is increased sales, feeder versus non-feeder markets." Because of this, Amoco called a halt to adding new feeders eight months ago and intends to look closer to see if it wants to go ahead.

One explanation for comparatively weak sales this year is that the battery business is down generally. Battery Council International reports replacement sales off 9% the first four months of 1985 dropping to 16,486,837 from 18,126,460 during the same period last year.

Rowles believes some of Amoco's battery feeders aren't selling aggressively enough. He's trying to encourage feeders to provide incentives to drivers. He's also working to keep feeders better informed about Amoco's battery marketing programs.

"In the meantime, while I'm trying to sort all this out, I'm not expanding feeder marketing anymore," he concludes.

Battery Shipments by Distribution Channel, 1984



Unocal: Feeding Jobbers

Unocal's Eastern Region is in the process of converting entirely to battery feeders after introducing them in its comparatively small direct retail operations a couple of years ago. The company has eight feeders serving jobbers and truckstops now, and will add more until its whole territory is covered.

Most of Unocal's business in the East is through jobbers, and Bill Schultz, manager of product and sales promotion, believes this kind of feeder program is quite a bit different from others.

Shell and others "are using feeder programs in concentrated direct markets," he explains. "That's different from using feeders with jobbers who are scattered out all over the country. You're going to have a lot more feeders, to begin with, because you're covering more geography.

"In addition, there probably won't be as much unit volume for each feeder, though it could vary a great deal."

Shultz says the biggest advantage of feeders is quick delivery in small quantities, which "automatically results in less obsolescence and less aging." A precondition for the success of the program, he says, is dropping loading programs "to prevent aging and sulfating on the shelf and keep the adjustment rate down."

Future of Feeder Programs

Just about everybody considers the key to the strength of feeder programs is that they are fundamentally a sound way of selling batteries through service stations. Battery men recognize, too, that details make the difference between a passable program and a successful one.

Some think feeders are a step backward for oil companies who once served customers with a proprietary warehouse and distribution system. As a practical matter, however, there are only a few such systems left in the oil industry, and perhaps the value of feeder programs must be viewed relatively in that light.

GNB VP Lawrie, who was active in setting up feeder programs for oil companies, doesn't expect miracles. "We could see the trend of battery sales through service stations, and we did something to try to arrest the tide. It has slowed down the decline, but I'd be less than honest if I said oil company TBA is going to rise. What's true for batteries is also true for tires."

Lawrie emphasizes the importance of the quality of the feeder. "The feeder program depends on how good the chosen battery specialist is. Some are very strong. Some are not as financially secure as others. The strength of the program depends on who is conducting the feeding operation."

Shell's Myrick says, "To me, battery feeders are the salvation for the oil company. Just as long as we can have a program that affords everybody acceptable profit—dealer, jobber, oil company, manufacturer, feeder—I think it's definitely the way to go. You've got local businessmen highly service oriented, very much in tune with the needs of a small businessman like a dealer."

Battery specialists have proved their effectiveness by growing to become the dominant channel of battery distribution. To the extent that oil companies use such specialists effectively, their mutual future appears to be bright. NPN

Battery Shipments by Distribution Channel, 1980-1984

(000 Batteries)

	1980	1981	1982	1983	1984	% Change '80-'84	% Change '83-'84
Gasoline & Oil	3,264	3,086	2,722	2,152	2,186	−33.03	1.58
Tires & Rubber	2,188	2,321	2,182	2,652	2,530	15.63	−4.60
Dept. & Discount Stores	12,885	14,396	14,334	13,218	13,099	1.66	−0.90
Auto Chains & Others	4,623	4,925	5,179	5,962	7,492	62.06	25.66
Fleet Operators	286	314	307	347	387	34.38	11.53
Vehicle & Equip. Mfrs.	2,228	2,376	3,098	2,388	2,445	9.74	2.39
Parts Distribution	9,892	9,919	8,814	9,297	10,853	9.71	16.74
Battery Specialists	12,736	14,105	15,651	17,123	18,147	42.49	5.98
Other	737	772	555	541	989	34.19	82.81
Total	48,841	52,215	52,844	53,681	58,129	19.02	8.29

Source: Battery Council International

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